

# **Fiscal Accountability, Efficiency and Budgeting**

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Department of Education  
Accountability Regulations  
September 2008

# Fiscal Accountability Regulations under SFRA and CORE Reforms

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- On April 30, department posted comprehensive set of draft regulations to implement:
  - CORE Reforms
    1. Chapter 53 – Fiscal Accountability Measures
    2. Chapter 62 – Tax Levy Cap
    3. Chapter 63 – Executive County Superintendents and Budget Review
  - SFRA (Chapter 260)
    - State aid formulas
    - General budget submission and review procedures
    - Authorizes Commissioner to take all affirmative action to ensure the effective and efficient expenditure of school district funds



# CORE Reforms

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- ❑ Chapter 53 – Fiscal Accountability Measures
  - ❑ “User Friendly” budgets
  - ❑ Travel - OMB travel circular
  - ❑ Efficiency standards for withholding state aid
- ❑ Chapter 62 – 4 % Cap on Tax Levy
  - ❑ Replaced CEIFA budget cap --- 07-08 thru 11-12
- ❑ Chapter 63 – Executive County Superintendents
  - ❑ Consolidation plans and shared services
  - ❑ Review of Administrator Contracts
  - ❑ Expanded budget review



# Accountability Regulations (Phase I)

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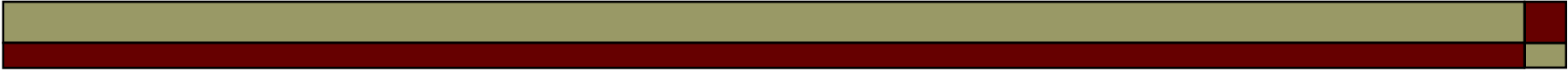
- ❑ In early June, issued revised draft of 80 plus pages covering ECS review of administrator contracts plus three other subchapters.
- ❑ Reorganized all subchapters and subsections to combine like activities
  - e.g. combined all budget review and approval sections under one subchapter
- ❑ On 7/1/08, issued final rules for these sections incorporating comments received



# Accountability Regulations (Phase I)

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1. Subchapter 3.1 – ECS Review of Admin Contracts
2. Subchapter 5 - Measures to Ensure Effective/Efficient Expenditures of District Funds
  - Order to Show Cause procedures; public relations & professional services; failure to maximize SEMI; req'd audits; verification of payroll; expenditures for non-employee activities, high cost travel.
3. Subchapter 6 - Conditions for Receipt of State Aid
  - Nepotism Policy; prohibition on play-to-pay; internal controls.
4. Subchapter 9 - ECS Budget Review Procedures
  - Budget review procedures; authority to direct expenditures to achieve T&E; review/reallocation for excess administrative and non-instruction expenses; budget defeat procedures.



## Subchapter 3.1 – ECS Review of Admin Contracts

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- Contracts to review:
  - All new CSA, SBA, Asst Sup and Deputy Sup contracts, including contracts that replace expired contracts for existing tenured and non-tenured employees
  - All renegotiations, extensions, amendments or other alterations *of terms of existing contracts* previously approved by ECS
  - All provisions for contract extensions where such terms are not included in original contract or are different from the original provisions approved.
- When contracts are reviewed:
  - Prior to any required public notice/hearing and prior to board approval and execution of contract.



## Subchapter 3.1 – ECS Review of Admin Contracts (cont.)

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- The Assistant Commissioner for Field Services reviews and approves all contracts in counties without an ECS or Acting ECS
- *Remember...*
  - The public notice and hearing required pursuant to NJSA 18A:11-11 is applicable to BOE that renegotiates, extends, amends, or otherwise alters the terms of an existing contract.
  - The public notice and hearing requirements do not apply to new contracts, which includes contracts that replace expired contracts for existing employees in one of these positions
  - But, nothing precludes a BOE from issuing public notice and holding a hearing and DOE encourages such disclosure for all contracts.

# Subsection 3.1 –

## ECS Review of Admin Contracts (cont.)

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### **ECS Standards for Review:**

- Comparable with salary, benefits and other emoluments in similarly credentialed/experienced administrators in other districts in region with similar enrollment, academic achievement levels, grade span, etc.
- No provision for reimbursement or payment of employee contributions (e.g. FICA)
- No provision for separation that is excessive in nature nor exceeds lesser of 3 mos pay for every year remaining on contract, not to exceed 12 mos, or remaining salary amount due under contract.
- No payment of benefits that supplement or duplicate benefits otherwise available by law (e.g. life insurance)
- Sick Leave and vacation payout consistent with Chapter 92 limits
- No bonus unless contingent upon achievement of measurable performance objectives
- No monthly allowance except reasonable car allowance.
- Per OMB circular, mileage reimbursement for all new contracts cannot exceed the state rate (currently 31 cents per mile).





## **Subchapter 5 – Efficient/Effective Expenditure of Funds**

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- ❑ **Subsection 5.1** - Procedures for Commissioner to issue Order to Show Cause to withhold or recover state aid due to excessive, unreasonable, ineffective or inefficient expenditures.
- ❑ **Subsection 5.5** - Requires expenditure and internal control audit for districts that receive > 50% state aid
  - Phase in schedule (to be established) starting with audit of 08-09 school year
  - Cost of required audit will be outside the calc of admin cost
- ❑ **Subsection 5.7** - Requires verification of payroll every three years



# **Subchapter 5 – Efficient/Effective Expenditure of Funds**

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## **Subsection 5.2 – Public Relations and professional services; board policies; efficiency**

- ❑ Policies shall include, to the extent practical and cost effective:
  1. Maximum \$ amount established annually for public relations.
  2. Procedures to ensure prudent use of legal services by employees and BOE and the tracking of the use of those services.
  3. Provision that requires legal services to comply with payment requirements/restrictions per 18A:19-1.
  4. Provision that contracts are issued in a *deliberative and effective manner* such as through a RFP or other comparable process.
  5. Provision that contracts are limited to nonrecurring or specialized work.



# Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)

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## Subsection 5.2 – Public Relations and professional services (cont.)

2. Procedures to ensure prudent use of legal services by employees and BOE and the tracking of the use of those services *that should include*:
  - Limitation on # contact persons with authority to request services or advice from *contracted* legal counsel.
  - Criteria or guidance to prevent use of legal counsel unnecessarily for management decisions or readily available information (e.g. district policies, admin regulations).
  - Requests for legal advice made in writing and procedure to determine if request warrants legal advice.
  - Log of all legal counsel contact (e.g. name, date, issue discussed, length of contact).

## Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)

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### Subsection 5.3 – Failure to Maximize SEMI

- Every district, except those that obtain waivers, shall take all steps to maximize its SEMI revenue and comply with all program requirements.
  - Maximizing SEMI = obtaining 90% return rate of parental consent forms for all SEMI eligible students in prebudget yr.
  - Districts must enter all students following evaluations into third-party system to identify districts universe of eligible students. This can be done without parental consent.

*Note- Obtaining 90% return rate without implementing all program requirements does NOT satisfy requirements.*

# Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)

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## Subsection 5.3 – Failure to Maximize SEMI (cont.)

- For 09-10 budget:
  - Districts that do not meet 90% return rate or are not complying with all program requirements in 08-09, must submit SEMI action plan to ECS for review/approval as part of budget submission.
  - Districts may seek waiver of the SEMI requirement no less than 45 days prior to budget submission if can demonstrate:
    - 30 or fewer Medicaid eligible classified students; or
    - Participation would not provide a cost benefit to the district
  - This is in addition to the waiver/action plan submitted on 9/1/08 which was for the 08-09 school year.



## **Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)**

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### **Subsection 5.3 – Failure to Maximize SEMI (cont.)**

- ❑ As part of budget process, DOE shall provide each district with projection of SEMI reimbursement.
  - ❑ Districts must recognize as revenue in the budget no less than 90% of said projection
  - ❑ Districts may seek ECS approval to use own projection
- ❑ Districts that did not achieve 90% participation AND cannot demonstrate that they fully implemented DOE approved action plan shall be subject to withholding of state aid.



# **Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)**

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## **Subsection 5.8 – Expenditures for students, parents and other non-employee activities**

Allowable costs include:

1. All reasonable costs, including light meals and refreshments, directly related to activities that benefit students and part of instructional program, including expenditures for field trips and extracurricular programs
  - All field trip destinations must be board approved
  - District must establish dollar thresholds for awards to recognize special accomplishments
  - Districts must establish a not-to-exceed budget for each category of student activity in a non-discriminatory manner



## **Subchapter 5 – Efficient/Effective Expenditure of Funds (cont.)**

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### **Subsection 5.8 – Expenditures for students, parents and other non-employee activities (cont.)**

Allowable costs include (cont.)

2. All reasonable costs related to other non-district employees (e.g. parents) including light meals and refreshments. It is expected such expenditures will be minimal and infrequent.
3. All reasonable costs of commencement and convocation activities for students
4. *All reasonable expenditures related to district employees to the extent such employees are essential to the conduct of the activity (e.g. chaperones, coaches).*



## Subchapter 5 –

## Efficient/Effective Expenditure of Funds (cont.)

### Subsection 5.9 – Out of state and high cost travel events

- Out of state travel events must be limited to fewest number of BOE or affected employees needed to acquire and present content to all members or staff.
  - Lodging may be provided if event occurs on 2 or more consecutive days & where home to event commute >50 miles

*Note -- Overnight travel waiver is required if NJ organization is sponsoring event outside NJ*

- ECS prior approval is required for travel events that exceed \$5000 or where more than three individuals from the district are to attend

*....except for regular business travel event where there is no limit on attendees that require prior ECS approval*



## **Subchapter 6 – Conditions for Receipt of State Aid**

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- ❑ **Subsection 6.2** - Requires board policy on nepotism by 10/1/08
- ❑ **Subsection 6.3-** Requires board policies on honest/ethical relations with vendors by 10/1/08
- ❑ **Subsection 6.5-** Appropriate segregation of duties
- ❑ **Subsections 6.6 thru 6.12** - Requires SOPs and various internal control policies
  - 6.6 – SOPs for business functions by 7/1/09
  - 6.7 – Integrated data and processes into unified system by 7/1/10
  - 6.8 – Position control roster by 7/1/09
  - 6.9 – Automated work order system for maintenance by 7/1/09
  - 6.10 – Board policy on approvals in excess of PO
  - 6.11 – Board policy on vehicle tracking and maintenance
  - 6.12 – Board policy on vehicle assignment (compliance with OMB circular)



## Subchapter 6 – Conditions for Receipt of State Aid (cont.)

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### Subsection 6.4(b):

- Any district *may* submit a written request to Commissioner to approve alternative system, approach or process for implementing internal controls required.
- Application must include documented evidence that includes an independent, 3<sup>rd</sup> party written assessment that the alternative system, approach or process will achieve the same safeguards, efficiency and other purpose as specified in the internal control requirement(s).



## **Subchapter 9 – ECS Budget Review Procedures**

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- ❑ **Subsections 9.1 - Standards for review to ensure T&E**
- ❑ **Subsection 9.2 and 9.3 – Standards for review of administrative and non-instructional expenditures and efficient business practices**
- ❑ **Subsection 9.4 and 9.5 – Authority to direct expenditures to achieve T&E and corrective actions to ensure CCCS**
- ❑ **Subsection 9.6 – Appeal of ECS budget reductions**
- ❑ **Subsection 9.7 – Defeated Budget Procedures**



## **Subchapter 9 – ECS Budget Review Procedures (cont.)**

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- ❑ **Subsection 9.10** – ECS ongoing budget review prior to submission of subsequent year budget
  - ECS shall reexamine and monitor all budgets within county in prebudget year to identify potential inefficiencies in administrative operations or any excessive non-instructional expenses *per regulatory standards in subsection 9.3.*
  - ECS shall notify in writing the findings and amounts by account for any district where administrative efficiencies and/or excessive non-instructional costs are identified and will not be approved in the district's subsequent budget
- ❑ **Subsection 9.11** – ECS/Fiscal Monitor yr-end financial review



## Subchapter 9 – ECS Budget Review Procedures (cont.)

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**Note -- Subsection 9.3** – Lists the standards for review of administrative and non-instructional expenditures and efficient business practices

- These are guidelines that each district *should* achieve unless district can demonstrate for T&E or long term stability reasons that such standards are inappropriate and/or cannot be achieved.
- Per subsection 9.10, ECS will meet with districts in prebudget year to discuss the standards, identify standards not meeting or not appropriate to meet, and establish timeframe for reduction of costs to meet standards.
- 2009-10 budget must include first year of reductions or ECS will exercise authority to disapprove such portion of budget.<sup>22</sup>

# Subchapter 9 –

## ECS Budget Review Procedures (cont.)

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- Examples of standards listed in the regulations:
  - Spending less than the median per pupil for administration, support services, operation/maintenance costs in comparative spending guide
  - Resources and costs within adequacy budget
  - Transportation efficiency rating => 120%
  - Custodians => a ratio of one for every 17,500 square ft
  - Overtime <10% of regular wages for that function
  - Tiered system of pupil transportation
  - Budgeting vacant positions at step 1
  - Aides only for mandated positions
  - Self-sufficient food service operation
  - Public relations functions incorporated into duties of CSA, BA and other staff positions (no dedicated PR staff)
  - Maximizing shared services for administration and other services

# Fiscal Accountability Regulations - *Phase II*

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- On 08/19/08, issued phase II of draft accountability rules incorporating comments received
- Key Provisions:
  - Subchapter 2 - ECS responsibilities and activities related to consolidation studies and facilitating shared services
  - Subchapter 3 – Standards for early termination agreements
  - Subchapter 4 – Income tax reporting compliance
  - Subchapter 7 - Travel Requirements
  - Subchapter 8 - User-Friendly Budgets and admin contract information
  - Subchapter 11 and 12 - Tax Levy Cap Provisions and Waiver Process
  - Subchapter 13 and 14 – Transfers and reserve accounts (capital, maintenance, emergency)
  - Subchapter 15 – Charter school allocations under SFRA



# Fiscal Accountability Regulations - *Phase II (cont.)*

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## Subchapter 7 - Travel Requirements – *things to remember*

- Applies to local, state and federal funds.
- Required board policy can include an amount per employee (not to exceed \$1500) for “regular business travel” that does not require prior board approval
  - Regular business = attendance at scheduled in-state county mtgs and DOE or association sponsored events free of charge or professional development if registration fee  $\leq$  \$100.

*Note - Regular business travel still requires approval of CSA*

- BOE may approve travel for multiple events as long as detailed in minutes, itemized by event, total cost and # of employees or BOE members attending.

# Fiscal Accountability Regulations - *Phase II (cont.)*

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## Subchapter 7 - Travel Requirements – *things to remember (cont.)*

- BOE may exclude from requirements of prior approval travel caused by existing contracts, including grants, donations, and by statutory or federal requirements.

*Note – for exclusion to apply required travel must be detailed in contract/statute/regulation (e.g. event, # of employees, total cost).*

- Where occasional unforeseen emergent situations arise wherein a travel request cannot obtain prior approval of BOE, such requests can be approved with prior written approval by the CSA and ECS.
  - BOE ratifies travel at next regularly scheduled meeting
  - Travel to conferences, conventions and symposiums are not considered emergencies and cannot be approved after the fact.

# Fiscal Accountability Regulations - *Phase II (cont.)*

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## Subchapter 12 and 13 - Tax Levy Cap Provisions - *things to remember*

- Budgets due Feb 15 if submitting waiver
- Waivers are NOT automatic
- ECS must review the entire budget for potential budgetary reallocations up to the total amount of the waiver request
- Reallocations will include areas for efficiency reductions and utilize the standards for review of non-instructional spending, as well as for programs and services not required for T&E (e.g. courtesy busing, adult education, summer enrichment programs (not remedial) and community programs (not offset by fees/tuition))



# Next Steps

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- Regulations –
  - Issue remaining emergency regulations - ECS consolidation and shared services authorities, travel, tax levy cap review process
  - First discussion state board regulations – October or November 2008 - revisions to NJAC 6A:23 (business services) for new statutes and required updates.
- 08-09 Extraordinary Aid Reimbursement
- 09-10 Budget Process

# ??? Questions ???

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